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ON THE QUESTION OF RELATIONSHIP BETWEEN AGRICULTURAL SURPLUS AND ECONOMIC DEVELOPMENT

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Agriculture has played significant role in the historical process of social development. In primitive societies, where mankind began its existence on land, it was one of the basic live-giving sources of social wealth and material means for the reproduction of human race and communities. It was producing surplus over and above subsistence requirements for replacement of agricultural capital for the reproduction of output and communities. The surplus generating role of agriculture has, however, gradually changed from one stage of development to another because of corresponding changes in the division of labour, exchange relations and social relations between labour and capital as the means of production. As a result, the conceptual role of agricultural surplus is perceived differently by different economists during different periods of time.

The Physiocratic Scheme :

The Physiocrats considered agriculture the most important productive sector and the cultivators (or agricultural labour) were held the most productive class. The proprietors or land-owners, sometimes called disponible, were held partially

productive; but the manufacturing and trading classes, called La Clase Sterile, were regarded as the non-productive one. In the Physiocratic scheme of economic analysis, the net product produced by agriculture was responsible for the reproduction of output and social classes such as landlord, cultivator, manufacturing and trading. It was upon the circulation of the net product (i.e. de'penses du revenu) that the process of the nation's development depended. In this scheme, the net surplus (i.e.product) was equal to $P - (P_c + U_c+U_e)$; where P stands for total output, P_c for de'penses productives (i.e., circulating capital in agriculture), U_c for de'penses sterilies (circulating capital in manufacturing and commerce) and U_e for expenditures of proprietors and productive classes for manufacturing and trading[1]. In fact, the net product was the net surplus required for the production of the next year's output. P_c was that part of the total output which was withdrawn in the immediate interest of the cultivators for meeting annual expenses for farm capital such as seed, manure repair on machinary, wages, etc. U_c was the part of output withdrawn in favour of the unproductive classes for meeting working capital and U_e for meeting expenses of proprietors and productive classes engaged in commerce and trade. Hence $(P-P_c)$, i.e. (U_c+U_e) was the part of output marketed between manufacturing and trading and this marketed surplus was obviously not productive in the sense that manufacturing and

commerce were conceived to be unproductive. Thus, the larger share of net product in favour of manufacturing and trading class, the greater the impairing of agricultural capital and consequently, the net product of the next year would shrink leading to adverse effect on the process of development. From the point of view of our purpose, two things are noteworthy in the Physiocratic scheme : (a) agricultural capital which is the most essential for development depends on the distribution of net product, and (b) a part of the output enters the process of circulation and exchange.

The Classical Analysis:

The classicals also considered the importance of agriculture in the process of growth but as a source of industrial expansion. Hence surplus agricultural produce was conceived as a constraint on industrial development or on the expansion of non-agricultural sector. The extraction of surplus produce from agriculture to non-agriculture was automatic because of the operation of Say's law of market, ie.,'supply creates its own demand'. Exchange relations between agriculture and non-agriculture were mediated through money in the product market which was in fact based on the exchange of labour as a commodity.

In the classical model, the capitalist class was the most significant from the point of view of development because of

its threftness and investiveness. The landlord was unproductive and the share of produce in terms of rent payment was quite unproductive. It was the working class which produced surplus over and above subsistence wages. This means that labour power was the main source of surplus generation.

The classical economists formulated a theory of surplus on the basis of meterialisation of such production conditions in which labour was alienated from the ownership of means of production and growth of wage labour accompanied by extension in the division of labour led to the development of labour market and "unequal exchange of labour as a commodity, in the sense of wage rate being lower than the productivity a distinctive feature of capitalist exchange".[2] It is this capitalist mode of exchange which extracts surplus produce and is allocated between agriculture and non-agriculture on the basis of a market-based exchange system.

The Ricardian system of income distribution shows that agricultural surplus as a residual (S) is equal to P-(W+R); where W is wage bill and R is total rent. In this model, S/W is the rate of profit on which development depends.

$$\frac{S}{W} = \frac{P-(W+R)}{W}$$

$$s = \frac{P}{W} - \frac{(W+R)}{W}$$

$$s = \frac{p}{w} - (1+\frac{r}{w})$$

The last equation shows that the rate of surplus generation depends on the productivity of labour per unit (P), wage rate (w), and rent per unit of labour (r) employed on a given piece of land. The higher the rent (r), the smaller the residual, assuming wage rate being institutionally determined. The surplus produce was the most important source of development and it finally depended on the relative position of feudal and capitalist relations in agriculture. This was later developed by Marx.

The Marxian Framework :

In the Marxian scheme of analysis, surplus generation and its extraction is thus a function of the mode of production that operates in agriculture. If the mode production is feudal, a substantial part of the surplus produce is appropriated by the landlords in the form of rent and usury.. As a result, home market does not develop because land and labour markets are not free and the peasantry is deprived of any access to purchasing power. In this case, a part of the surplus enters the process of circulation and exchange which in fact takes place through the administrative process of revenue collection and public expenditure. But in semi-feudal economy where commerce and trade develop and interest bearing and merchant capital grow, the process of surplus extraction takes place in the product market; and the small and poor peasants are forced to enter exchange relations; what Amit Bhaduri calls

it as contrived exchange relations[3]. The enforcement of the small and poor peasants into contrived exchange relations; ie., involuntary market involvement is a product of debt mechanism to which they remain bonded or dependent. The marketing of produce by traders and merchants creates marketed surplus but exchange relations through which surplus is extracted is of a forced nature. Briefly speaking, the semi-feudal mode of production leads to appropriation of surplus produce by the landlords, by traders and merchants because of the involuntary involvement of the small and poor producers in the product market. In this case, the generation of marketed surplus may not necessarily facilitate the process of development.

But the situation will be different in the case of operating capitalist mode of production in agriculture, because of the wide spread development of capitalist relations in agriculture. Generation of surplus value, a product of unequal exchange of labour as a commodity is extracted by traders - a specialised class - who play the role as an active agent of development. The capitalist relations produce surplus and the capitalist exchange relations between agriculture and non-agriculture or between farmers and traders or industrialists are materialised through money in the market having voluntary market involvement based on the principle of 'gains from trade'. In otherwords the question of marketable or marketed surplus as a product

of capitalist exchange relations between agriculture and non-agriculture is the realisation of surplus value in the market based on the unequal oexchange of labour as commodity. All this is possible where peasantry is differentiable between employer-farmer and hired labour, home market for commodities is developed and marketable surplus is realised for labour, and surplus product is accumulated for investment for growth in agriculture and non-agriculture.

The Two Main Approaches:

These three theorectical formulations on the relationship between surplus agricultural produce and development highlight the importance of surplus produce in the social process of economic development. But all of these basically differ in their respective approach to study the mode of surplus generation and extraction. The mode of surplus generation and extraction differs from one another because the Physiocrats were concerned with the natural necessities or forms of production and exchange, wherein surplus produce was conceived as a gift of nature.[4] The classicals with developing capitalist mode highlighted the insignificance of rent and the significance of surplus to capitalist farmers. Marx was concerned with the genesis of the capitalist mode of production and consequently with the capitalist mode of surplus generation and extraction. Hence the mode of marketable surplus generation and its extraction is taken to be a function of the

historical process of growth in the division of labour, development of home market, changes in exchange relations and in the social relations between labour and capital as the means of production.

In this way, theoretical literature on development economics has two major approaches to the study of the relationship between marketable surplus (or agricultural development) and economic development. The first consists of how marketable surplus is a crucial constraint on industrialisation and development of an economy in general. The second approach deals with the process of generation and realisation of marketable surplus, using a Marxian analytical framework.

The so-called modern theoretical formulations on the relationship between marketable surplus (discussed in the context of agricultural development) and economic development have approached the question of marketable surplus as a constraint on the process of industrialisation and development. " In a rather fundamental sense, agricultural progress is normally prerequisite for industrial development. This is clearly the case in a closed economy, where one of the most preconditions of industrial expansions is the achievement of a rate of increase in agricultural productivity which exceeds the concurrent rate of increase in the demand food"[5]. Agricultural development is needed for promoting and substaining industrial development by meeting demand requirements of food in non-

agricultural sector by raising the demand for industrial goods through increase in agricultural incomes; by supplying wage goods of industrial workers at prices favourable to the profitability of new industry; and by supplying raw materials for expansion of agro-based industries. For an open economy, agricultural development is also required for saving food import and encouraging food export for foreign exchange earnings. Such theoretical formulations do not explain the problem of the question of marketable surplus. 'There is even an implicit assumption that marketable surplus to be generated independently of the development of non-agriculture sector and that it is first a question of increasing agricultural production'.[6] An increase in agricultural production can generate marketable surplus but the latter cannot be realised if there is no chance for the increased production to be sold. In fact, the modern (i.e. standard) theoretical formulations are concerned with specific exchange relation which are supposed to take place between agriculture and non-agriculture through money and take development of home market as granted.

The formation of home market is not merely a function of increase in production but depends on the development of commodity output, separation of agriculture from different branches of industry, the separation of the direct producer from the means of production and the labour market from the land and product markets. The home market cannot develop

fully, if all these markets are interlocked with each other. In that case, there may not be commercialisation of the product market in real sense of the term, despite all the small and marginal farmers drawn into the vortex of market through monetisation.

The generation of marketable surplus is possible by increasing agricultural production but the process of its extraction may not boost up rural development and industrialisation, if the home market is not fully developed and the product market is superficially commercialised. The underdevelopment of the home market and superficial commercialisation of the product market restrict the process of agricultural as well as non-agricultural development because the process of inter-exchange between the agricultural and non-agricultural sectors does not realise the surplus value into capital, but it is extracted by the trader and merchant leading to interest bearing and merchant capital. In that case, trade and commerce dominate over the branches of production and dictate the production process. However, the real producers are placed under the wheels of exploitation by the traders and the marketing of the surplus creates income for meeting their demand for essentials and thereby, leaves small or negligible saving margin for investment in agriculture. Hence the models which assume the generation of agricultural surplus essential for economic development, industrialisation and urbanisation,

do not comparehend the process of its extraction that takes place in the developing countries like India.

The Indian Case : History and Theory :-

Assuming that no theorisation is realistic without being related to the historical forces, the Indian Case is briefly presented here in the context of the above theme. The Indian case begins with the colonial rule, during the period of which a new variety of trade and commerce was introduced with the British merchant capital on the land of self-sufficient village unit of production. While discussing agricultural backwardness the Royal Commission on Agriculture, 1926 underlined self-sufficient agriculture and low level of urbanisation as the main causes of agricultural backwardness in India. The letter was taken as one of the most important causes because urbanisation was noted to be most important demand-raising factor for agricultural output and its marketing. This view was held in confirmity with the policy of industrial development which was duly framed in the earlier report on the Industrial Commission of 1916-18.

These two reports materialised the colonial approach to agricultural and industrial development, when the British merchant capital, through the centre periphery nexus of market and trade relations, had brought the whole of Indian agriculture and industry under its control for extracting the surpluses for building the home market in Britain and for consolidating

her political power in the colony. As a result, the existence of backward relations of production within agriculture, the key branch of the Indian economy was retained and this bolstered the traditional character of the reproduction.[7] The British merchant capital ruined the inner structure of techno-economic relations between agriculture and domestic industry and so the poor peasants, tenants and artisans were left with no alternative, but to remain dependent on the traditional relations of production in the rural areas. In order to extract some vital raw materials a part of British merchant capital was also converted into capital for investment in some specific areas, such as Western UP and the Punjab wherein cash crops like sugarcane and cotton were grown leading to 'forced' nature of commercialisation. The increased land revenue and expenditure on public administration, the Taccavi loans etc. led to growth in market relations with consumers and producers. Such relations were extended more with the growth of interest-bearing capital in the rural areas. In this way, interest-bearing capitalcame into play with the British merchant capital that was instrumental in retaining the traditional relations of production in agriculture and in interlocking the product,labour & rural credit markets for subsuming labour under interest-bearing & merchant capital. As a result, agricultural backwardness persisted, the commercialisation of the product market was forced, and the agricultural surplus (whatever were generated) were extracted by money-lenders and traders and the surplus value realised

thereof didnot generate capital for investment but only money capital which in fact served the objective of the British merchant capital in subordinating the socio-economic system of production to the metropoliton capitalist system. The colonial arrangements of land relations and the corresponding process of bureaucratisation helped a lot in this regard.

Briefly speaking, the exploitative process of merchant capital in British India extracted agricultural produce through such exchange relations which forced the producers to dispose of their produce to the money lenders and traders, the latter being an organic part of the British merchant capital. Hence the forced commercialisation of the product market with the backward relations of production could not develop the home market required for developing agriculture as a capitalist enterprise.

The following may be derived from the foregoing discussion: firstly, during the colonial rule rent and land revenue were the major sources of surplus generation in agriculture, its production relations remaining traditional and backward; secondly, interest-bearing and merchant capital were the main means for the extraction of surplus from agriculture, having based on the 'forced' commercialisation of product market. Hence the home market remained underdeveloped and the mode of exchange relations could not become capitalist but remained mercantile. Consequently, the extraction of agricultural

produce realised surplus value not for labour but for money capital. Persistence of the traditional relations of production in agriculture was obviously product of the colonial rule. So far the generation and extraction of agricultural surplus in free India are concerned, a number of questions arise. How has free India approached to generate and extract the surplus produce ? How does her approach differ from the colonial policy ? Does forced commercialisation persist even today ? Is the home market developed or still underdeveloped ? Are the exchange relations between farmers and traders capitalist or merchantile ? Does the realised surplus value stand for labour or money capital formation ? All these questions require through investigation and analysis. Im order to limit the focus on some of the issues relating to the main theme of this paper, it is assumed that in post-Independence India, the policy models for planning agricultural development (or for that matter development in general) perceived agricultural surplus as one of the main constraints on urbanisation and industrial development and so a set of 'package-programmes' were launched to boost up the process of growth in Indian agriculture; and the extraction of surplus was left to the market forces and mercantile mode of exchange relations which were built into the centre-periphery nexus of trade relations under the guidance and control of merchant capital during the colonial rule. It is held as a reality based on a number of studies which show how a

vast mass of small and marginal peasants produce and market agricultural output and how most of them also purchase output for subsistence consumption; and how the traders extract marketable surplus from agriculture. The process of extraction is such that the producer's surplus in agriculture realises much lower surplus value than what the traders do in the product market, after the purchase of the surplus by them. It is thus safer to assume that the realised surplus value, by and large, **remains** in the domain of money or merchant capital and is used for playing the role as the unproductive asset-value function. The absorption of excess labour in agriculture and some marginal increase in the proportion of non-agricultural workers with substantial increase in the share of non-agricultural income to the total national income are indicative of this fact. These empirical evidences based on the National Income Accounts and Census Reports till 1981 also indicate that the process or mode of extraction of agricultural surplus has insignificantly realised into productive investment in agriculture and industry. Had there been realisation of the surplus value into productive investment, there could have been not only high sectoral growth rate but also substantial amount of growth in productive labour employment in both sectors of the economy. But the case seems to be different in the sense that the realised surplus value goes more into formation of money or merchant capital than into capital as such for productive investment in the agricul-

tural and industrial sectors.

According to Krishna Bharadwaj[8] and Amit Bhaduri[9], the realised surplus value does not go into capital for productive investment in agriculture (and also in industry) because of "the retrogressive working of exchange relations with the under development or muted formation of capitalist relations in the market re-enforcing similar tendencies in others and the operation of interlinkages diverting surplus into unproductive channels affecting the growth and reinvestment of surplus arises from the preponderance of categories of 'very small operators' and 'small operators' among the differentiated".

According to them, the realised surplus value either by the rich peasants or by the traders does not go into the productive investment channels because of the retrogressive working of exchange relation with the muted formation of capitalist relations'.

What they intend to put forward is that given the prevelent poverty and economic dependency and the interlocking of different markets, the usurious, speculative and mercantile forms of capital investment, which result from the characteristic feature of money or merchant capital, take place and the latter goes into unproductive channels. Such forms of capital investment, in fact, correspond to or arise from

mercantile forms of exchange relations which reflect 'the muted' formation of capitalist relations or the dominance of traders and merchants over the peasantry. Hence the increased surplus agricultural produce extracted by the traders in the product market realises excess surplus value from the commodity sale which strengthens the hold of merchant capital not only in agriculture but also in non-agriculture. The interlocking of markets make the trading oligarch easier to exercise control over the process of surplus extraction for sale and so over the flow of surplus produce and then over the process of money capital formation. As a result, they restrict the development of not only home market but also the development of capital market as such because of their oligarchic dominance over the money market. Persistence of poverty, unemployment, underdevelopment and/or disguised unemployment is consequential outcome of the process in which output is produced, surplus is extracted from agriculture, and surplus value is realised into capital for investment in agriculture and industry.

<u>What All This Shows</u> :

What all this shows is that while the generation of agricultural surplus is crucial to accelerate and sustain the process of development, it is by no means the sufficient one. The process by which surplus is extracted from agriculture and surplus value thereof is realised into the formation of

capital for investment needs special treatment. Hence any theoretical formulation on the question of agricultural surplus and economic development may not be complete or appropriate, if the surplus extraction process and the realisation of the surplus value into the formation of capital for investment are kept aside from its analytical framework. The theoretical formulations which approach to study how the generation of agricultural surplus is crucial to the process of development, in fact remain to be captive of their in-built functional limit to ahistorical explanation of the relationship between agricultural surplus and development. 13121

How surplus is extracted and how surplus value is realised are important for investigation. Historically, the physiocrats and the Classicals provide some clues to understanding the question of how agricultural surplus is related to development but they do not explain the process of surplus extraction and realisation of surplus value into the formation of capital for investment in agriculture and industry. But the Marxian analysis helps in understanding the question of how surplus is extracted and/how surplus value is realised into the formation of capital for investment, given the stage of development and mode of production.

The Indian case of surplus extraction from agriculture during the colonial rule shows that the British merchant capital brought about 'forced' commercialisation in Indian Agriculture in order to create raw material base for England through

the centre-periphery nexus of market and trade relation; while its production relations remained traditional and backward since the destruction of techno-economic relations between agriculture and domestic industry. The extraction process of agricultural surplus could not realise surplus value into capital for productive investment in agriculture (as well as in industry).

In free India, the emphasis on agricultural development increased agricultural surplus; but 'forced' commercialisation continued and the realised surplus value from the extracted surplus did not seem to have significantly gone into the accumulation of capital for productive investment in agriculture and industry. Hence, poverty, unemployment and under-employment persist on a large scale in the country.

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